



## **Office of the City Auditor**

### **RICO and Imprest Checking Account Audit Report No. 0160**

**September 28, 2001**

This audit was completed at the request of the Police Chief. We found that expenditures charged against available RICO funds during the last two fiscal years met the intent of the program. As well, adequate controls exist for the checking accounts maintained by the Police Department. However, we also found that the City needs to address timeliness issues, require advance approval for planned expenditures, and set responsibility for certain administrative tasks. Additionally, we found that clarification of documented guidance related to the checking accounts would lead to improved administration.

#### **CITY COUNCIL**

Mayor  
Mary Manross

Council  
Cynthia Lukas  
Ned O'Hearn  
David Ortega  
Robert Pettycrew  
Tom Silverman  
George Zraket



September 28, 2001

*"Most Livable City"*

*U.S. Conference of Mayors*

OFFICE OF  
CITY AUDITOR

7440 E. FIRST AVE  
SCOTTSDALE, AZ 85251

(480) 312-7756 PHONE  
(480) 312-2634 FAX

To the Most Honorable Mary Manross, Mayor  
and Members of the Scottsdale City Council

Transmitted herewith is the report of our evaluation of the internal control environment over RICO funds and imprest checking account maintenance and activities.

The City Manager, the Police Chief, and the General Manager of Financial Services have read the audit report and concur with the overall findings. Police management is in the process of implementing recommendations and revising the Special Investigations Section Operations Orders to enhance internal controls. In addition, Financial Services has also responded to report recommendations. The written management responses can be found in Appendix B.

If you need additional information or have any questions, please contact us at 480-312-7756.

Respectfully submitted,

A handwritten signature in black ink that reads "Cheryl Barcala". The signature is written in a cursive, flowing style.

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP  
City Auditor

## Table of Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
RESULTS IN BRIEF .....	2
ACTION PLAN .....	4
<i>RICO Related</i> .....	4
ACTION PLAN .....	7
<i>Imprest Related</i> .....	7
<b>BACKGROUND.....</b>	<b>8</b>
RICO DEFINED .....	8
IMPREST DEFINED .....	10
REPORT PRESENTATION .....	11
<b>RICO EXPENDITURES HAVE MET REQUIREMENTS, BUT THERE IS ROOM FOR IMPROVEMENT IN OVERSIGHT .....</b>	<b>12</b>
FUNDS SHOULD BE USED IN A TIMELY MANNER .....	13
UNSPENT RICO FUNDS SHOULD BE RETURNED TO THE APPROPRIATE OVERSIGHT AGENCY .....	14
SUFFICIENT PROCEDURES NEED TO BE IMPLEMENTED TO OBTAIN AND DEPOSIT RICO FUNDS IN A TIMELY MANNER .....	15
<i>Adjusting Entries Not Made to Properly Charge RICO Monies for Operating         Expenditures.....</i>	<i>15</i>
<i>Adjusting Entries Not Made to Properly Charge RICO Funds for Capital Projects</i>	<i>16</i>
<i>Proper Controls Should Detect Appropriateness of Adjusting Entries.....</i>	<i>17</i>
<i>Monies Need to be Obtained on a Timely Basis.....</i>	<i>18</i>
<i>Monies Should be Deposited on a Timely Basis</i> .....	<i>19</i>
CITY NEEDS TO OBTAIN APPROVAL OF PROPOSED EXPENDITURE IN CONCERT WITH PREPARATION OF CITY BUDGET .....	20
CITY MANAGEMENT REPORTS SHOULD FULLY DISCLOSE THE AVAILABILITY OF ALL RICO FUNDS .....	21
REPORTING REQUIREMENTS APPEAR TO BE MET, BUT TIMELINESS COULD BE IMPROVED .....	21
<i>ARS Reporting Requirements Have Been Met</i> .....	<i>22</i>
<i>Reporting to the Department of Justice Could Be More Timely.....</i>	<i>22</i>
<b>USE OF IMPREST CHECKING ACCOUNT FUNDS COMPLIES WITH GUIDANCE, BUT IMPROVEMENTS ARE POSSIBLE .....</b>	<b>23</b>
RETENTION OF SUPPORTING DOCUMENTATION AND OPERATIONS ORDERS CLARIFICATION COULD ENHANCE CONTROLS .....	24

USE OF EXPENSE MONIES FOR MEALS SHOULD BE CLARIFIED .....	25
DEPOSIT OF UNEXPENDED FUNDS COULD BE MORE TIMELY .....	25
OVERSIGHT OF MONTHLY REPORT OF EXPENDITURES NEEDS TO BE DOCUMENTED .....	27
BUY FUND ACTIVITY APPEARS APPROPRIATE, BUT MONITORING SHOULD BE BETTER DOCUMENTED .....	27
<b>OBJECTIVE, SCOPE, AND METHODOLOGY.....</b>	<b>29</b>
<i>RICO Survey</i> .....	29
<i>RICO Fieldwork</i> .....	29
<i>Imprest Survey</i> .....	36
<i>Imprest Fieldwork</i> .....	36
<b>APPENDIX A: .....</b>	<b>45</b>
STATUS OF MANAGEMENT ACTIONS IN RESPONSE TO 1995 RECOMMENDATIONS .....	45
<b>APPENDIX B: MANAGEMENT RESPONSES.....</b>	<b>47</b>
CITY MANAGER’S RESPONSE .....	47
POLICE CHIEF’S RESPONSE.....	48
FINANCIAL SERVICES GENERAL MANAGER’S RESPONSE .....	49

## EXECUTIVE SUMMARY

This audit was initiated at the request of the Police Chief to evaluate oversight and controls over funds received through asset forfeiture provisions related to Racketeering Influenced Corrupt Organizations (RICO) and certain police imprest checking accounts used for special investigations. This work is the third audit related to these funds (1991 and 1995). In addition, our office has also reviewed the City's management of federal RICO funds to comply with a U.S. Department of Justice (DOJ) requirement for an independent audit. We issued a separate report to DOJ in April 1997.

The DOJ requirement for an independent audit has been replaced with criteria that calls for audits to be conducted as provided by the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A. As a result, while our audit looked at compliance with the federal guidelines, a separate audit report, similar to the one prepared in 1997, will not be issued.

We discussed the current DOJ requirements with Financial Services management. They indicated that the external audit vendor is contractually obligated to ensure compliance with related requirements. Financial Services will take steps to ensure that the external auditor is aware of the need to consider RICO funds when planning their work.

The Audit Committee approved this project and fieldwork took place in June 2001. Ramon Ramirez, Auditor-in-Charge, and Stella Fusaro, Internal Auditor, performed the work. Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing as required by Article III, Scottsdale Revised Code §2-117 *et seq.*

The objectives of the audit were to:

- Review the internal control environment over RICO funds and imprest checking account maintenance and activities and to verify compliance with applicable statutory requirements.
- Follow-up on the status of agreed upon actions that resulted from our 1995 audit (Audit Report No. 9105).

To complete the audit we:

- Interviewed staff and reviewed the Special Investigations Section (SIS) Operations Orders to gain an understanding of controls over RICO funds and the imprest checking accounts.

- Evaluated RICO expenditures for appropriate oversight and compliance with federal guidelines and Arizona Revised Statutes (ARS).
- Reviewed imprest checking account transactions for appropriate oversight and compliance with the SIS Operations Orders and to ensure that they are authorized and supported with adequate documentation.

The City Manager, the Police Chief, the SIS Commander, and the General Manager of Financial Services have read the audit report and concur with the overall findings. Police management is in the process of implementing recommendations and revising the SIS Operations Orders to enhance internal controls.

Presented in Appendix A is the "Status of Management Actions in Response to 1995 Recommendations" which discusses actions taken on recommendations made in our 1995 report. Management responses to recommendations identified during the current audit can be found in Appendix B.

### **Results in Brief**

We reviewed City RICO expenditures recorded for the past two fiscal years and found that they were made for permissible uses. Moreover, the Asset Forfeiture Detective (RICO Administrator) maintains documentation that demonstrates his verification of City monies on deposit with outside agencies. We also found evidence that both the Police Legal Advisor and the County Attorney's Office approved the expenditures. Additionally, we noted that the City has complied with the applicable ARS reporting requirements.

Within SIS, Operations Orders serve as a guide for the use of monies held in the imprest checking accounts. We found that the use of the monies was in compliance with the applicable Operations Orders. We did not find any intentional misuse of funds, and controls, for the most part, appear to be working. Based on the transactions reviewed, we found that the SIS Commander and unit supervisors are completing monthly individual and unit expenditure reports and documenting Buy Fund purchases. We also found that fund replenishments for both imprest checking accounts were consistently deposited in a timely manner and supporting documentation was maintained for the amounts paid from the administrative account.

While we found positive aspects to the oversight and maintenance of RICO and imprest checking account monies, we have identified recommendations that should improve the overall administration of these funds. The RICO recommendations will address timeliness issues related to funds use, reimbursement requests, and adhering to reporting requirements. Additional RICO recommendations will address fixing responsibility for required accounting entries, obtaining preliminary approval for proposed expenditures and the enhancement of management reports. Recommendations related to the imprest checking accounts will address the revision of the Operations Orders to clarify the intent of providing monthly expense monies; the appropriateness of using the monies for certain expenditures; the documentation required to support expenditures and to demonstrate appropriate supervisory approval; and the return and re-deposit of unexpended monies within a specific time frame.

Although we believe that Operations Orders revisions will benefit SIS, our related findings did not involve material dollars amounts. For the periods reviewed, expenditures averaged a total of \$315 per month for all units, or \$18 per officer per month. However, due to the sensitive nature of the police work furthered with the use of the expense monies, we believe that the suggested changes will increase the integrity of the overall process.

The Action Plan on the following pages details our recommendations to enhance oversight and control of RICO funds and the two imprest checking accounts reviewed. The Action Plan also summarizes management's response to our recommendations.

**Action Plan**  
**RICO Related**

No.	Recommendations	Management Response	Implementation Status
1.	<p>The City Manager should direct the Police Chief to:</p> <p>a) Implement procedures that will ensure that all RICO funds will be used within the recommended two-year period set out in federal guidelines. Fund reserves should be restricted to those situations in which Council approves a plan to build a reserve for a particular project.</p> <p>b) Submit proposed RICO expenditures to the County Attorney's Office or the State Attorney General's Office (depending on anticipated funding source) for approval prior to including the RICO monies as a funding source in the City budget process.</p>	<p>Agreed.</p> <p>Agreed with this recommendation to seek a secondary legal concurrence on anticipated uses. We anticipate the County/State Attorney's Offices can accommodate this and doesn't cause them an undue burden.</p>	<p>11/2001</p> <p>11/2001</p>
2.	<p>The Police Chief should require the RICO Administrator to:</p> <p>a) Immediately return all unused RICO funds from previous fiscal years, currently held by the City, to the appropriate oversight agency.</p> <p>b) Work with the Police Budget Manager to develop and implement procedures to periodically, but no less than annually, review RICO expenditures charged to RICO general fund and capital project centers to ensure that the accounts appropriately reflect RICO activity. The procedures developed should also include a verification that all adjusting entries made to the RICO centers agree with the related expenditure amounts.</p>	<p>The Forfeiture Detective is in the process of completing the ACJC report. At the completion of that report he will return any overage amounts in the CITY Rico accounts to the County Attorney's office. In addition, in the future the Forfeiture Detective will ensure that any future unused Rico money in the City Rico accounts will be returned to the appropriate oversight agency after the completion of each ACJC report.</p> <p>Agreed. Policies and actions already reflect this.</p>	<p>10/2001</p> <p>9/2001</p>



No.	Recommendations	Management Response	Implementation Status
3.	c) Request RICO monies from the County Attorney's Office and/or the State Attorney General's Office prior to RICO expenditures being made. In the event that the decision is made to continue to request RICO monies on a reimbursement basis, the RICO Administrator should ensure that the requests are made at least quarterly and in a timely manner.	Agreed. SIS Commander will change General orders to reflect this.	12/2001
	d) Deposit checks, issued to fund RICO expenditures, into appropriate City accounts within seven days of the checks being made available. Reasons for delayed deposits should be documented and retained by the RICO Administrator.	Agreed - Recommend deposit within 7 <b>working</b> days of <b>receipt</b> by asset forfeiture detective.	Already done.
	e) Submit the annual certification reports, due to the DOJ, within the due date prescribed in the federal guide.	Agreed – working on methods to improve the timeliness although staffing issues are involved. Recommend assistance from Accounting to complete these.	11/2001
	The Police Chief should require the Police Budget Manager to:		
	a) Implement procedures to annually reconcile all RICO expenditures to monies received to ensure that all reimbursements have been obtained and deposited with the City on a timely basis.	Agreed – this is part of the existing fiscal year close out procedures and already incorporated in the General and Operations Orders.	9/2001
	b) Include, in the annual reconciliation, verification that City recorded expenditures agree with the detail submitted by the RICO Administrator in his reimbursement requests.	Agreed – Budget Manager and Asset Forfeiture Detective will complete this.	10/2001
4.	The General Manager of Financial Services should take steps to ensure that:		
	a) The Accounting Coordinator makes needed adjusting entries to reimburse the City general fund for RICO operating expenditures initially paid with City monies.	Procedures have been implemented to help ensure journal entries to reimburse the General Fund for RICO general fund operating expenditures are recorded on a quarterly basis.	Already done.

No.	Recommendations	Management Response	Implementation Status
	b) The CIP Coordinator makes needed adjusting entries to reimburse the City for capital project expenditures that are suppose to be funded with RICO monies.	Procedures have been implemented to help ensure journal entries to reimburse the City for RICO funded capital project expenditures are recorded on a quarterly basis.	Already done.
	c) City management and City Council are provided with reports that fully disclose all RICO monies available to the City.	RICO monies available for City use are recorded and available in the City's financial system.	Already done.

**Action Plan**  
***Imprest Related***

No.	Recommendations	Management Response	Implementation Status
5.	<p>The Police Chief should require the SIS Commander to revise SIS Operations Orders to:</p> <p>a) Require that receipts be obtained, when practicable, and attached to the monthly Report of Expenditures to document the use of expense monies. Reasons why receipts are not obtained should be documented in the monthly Report of Expenditures.</p> <p>b) Clearly define the underlying intent of providing the monthly expense monies to members of SIS units.</p> <p>c) Clearly establish guidance on when it is acceptable to use expense monies for meals, and on the level of documentation necessary to evidence a unit supervisor's approval.</p> <p>d) Establish timeframe requirements for the monthly deposit of unexpended expense monies.</p> <p>e) Require that reasons for not meeting the timeframe for monthly deposits be documented.</p> <p>f) Require the uniform use of a monthly Report of Expenditures form, which contains a date line for completion with the date that the unit members submit their unexpended funds to their unit supervisor.</p> <p>g) Require that supervisory reviews of the monthly Report of Expenditures be documented with signatures and dates.</p>	<p>Agreed – SIS Commander will modify the form to accommodate brief explanations.</p> <p>Agreed – SIS Commander will update the General Orders</p> <p>See 5 b)</p> <p>Agreed – already implemented and established to be 10 calendar days.</p> <p>Agreed – deposit form will be revised.</p> <p>See 5 e)</p> <p>Agreed.</p>	<p>11/2001</p> <p>12/2001</p> <p>Already done.</p> <p>11/2001</p> <p>Already done.</p>
6.	<p>The Police Chief should require the SIS Commander and the ISB Deputy Chief to adhere to the SIS Operations Orders requirements for monitoring the Buy Fund and documenting their reviews with their initials and the date.</p>	<p>Agreed – the SIS Commander already performs this function monthly. The new ISB Captain position will be responsible for a secondary review and the SIS Operations Orders will be updated accordingly.</p>	<p>12/2001</p>

## **BACKGROUND**

The Scottsdale Police Department's Special Investigations Section (SIS) is housed within the Investigative Services Bureau (ISB) and is supervised by a lieutenant referred to as the SIS Commander. Within SIS there are three units, Narcotics, Special Assignments, and Intelligence. Within each unit, a sergeant supervises the detectives. SIS is charged with the responsibility of drug enforcement, covert surveillance, criminal intelligence gathering, and other vice related activities.

This report addresses SIS's administration and maintenance of the Racketeer Influenced and Corrupt Organizations (RICO) program as well as their administration and maintenance of two imprest checking accounts. Within SIS the Asset Forfeiture Detective acts as the control point for the Police Department's RICO program and is referred to in this report as the RICO Administrator. The two imprest checking accounts fall under the immediate oversight of the SIS Commander.

### **RICO Defined**

Federal and state RICO statutes allow law enforcement agencies to seize and retain a criminal offender's property if it was gained through illegal activities that are generally characterized as racketeering. Asset forfeiture is obtained through civil actions, separate from related criminal actions, prosecuted in either a federal, state, county, or city venue depending upon the parties involved and the prosecution resources available. Federally prosecuted cases result in federal forfeitures while state, county, or city prosecuted cases result in state and local forfeitures. The distinction between the two types of funds is necessary in order to comply with applicable reporting requirements and spending restrictions. In general, the use of RICO monies is restricted to law enforcement purposes, but the monies cannot be used to replace or supplant the resources of the recipient agency.

Between July 1, 2000, and April 30, 2001, (the most recent information available at the time of audit fieldwork) the City received over \$278,000, including interest, from this program.

RICO REVENUES		
	<u>Fiscal Year Ended</u>	
	<u>6/30/00</u>	<u>4/30/01</u>
Federal	\$ 65,063	\$ 63,332
State & Local	<u>111,608</u>	<u>215,267</u>
Total	<u>\$176,671</u>	<u>\$278,599</u>
* Most recent data available for fiscal year 2000/01		

**SOURCE:** Audit Analysis, City RICO Administrator, and City reports.

Applicable ARS require that a political subdivision of the state deposit its RICO monies in a fund administered either by the County Attorney's Office or the State Attorney General's Office. Monies deposited in these funds are held for the benefit of the depositing organization and earn interest while on deposit. According to one of the attorney's responsible for drafting the applicable statutes, the requirements were established for oversight of the RICO funds and to help ensure public trust in their usage. The oversight afforded through the ARS requirements is in addition to those exercised internally within the City.

Acting as a fund administrator, each of these offices tracks the City's monies in two separate accounts. One account tracks federal funds and the other tracks the state and local funds. Scottsdale can obtain its RICO monies upon request provided that the fund administrator agrees that the proposed use of the monies is permissible per statutory restrictions and provided that certain reporting requirements have been met.

In conjunction with the above-mentioned requirement, ARS requires that the City provide the County Attorney with a quarterly report outlining the City's sources of all RICO monies and all related expenditures. Failure to comply with this requirement can result in suspension of authority to spend RICO funds.

A process for reviewing proposed expenditures for appropriateness has been established within the Police Department to assure compliance with applicable restrictions. Within SIS, the RICO Administrator is responsible

for ensuring that restrictions and requirements are satisfied. As such, the Administrator's primary duties include:

- Tracking the status of cases.
- Depositing related checks.
- Recording and tracking transactions.
- Reconciling activity and account balances.
- Preparing requests for City monies on deposit with the County Attorney and/or the State Attorney General's Office.
- Generating required reports to summarize activity.

In general, the Police Department's Bureau Chiefs make recommendations for RICO expenditures, which become the proposed RICO budget. The RICO Administrator may be consulted to provide insight into the available monies. The Police Budget Manager reviews the proposed RICO budget for adequacy of the request, trends, available funding, and compliance with applicable spending restrictions. From there, the proposed expenditures are sent to the Police Legal Advisor who makes a determination as to whether they comply with spending restrictions. Ultimately, the Police Chief has final authority for the expenditures of the RICO funds. The proposed budget is then sent to the City's Accounting Department and at that point, it is forwarded through the normal City process for proper authorizations.

### **Imprest Defined**

Because of the nature of certain SIS activities, it is not always practical to follow standard City procedures to pay for necessary expenses. To avoid compromising these undercover operations, the City uses an imprest system with two separate checking accounts. One is used to pay normal administrative expenses and the other is used for undercover operations. These accounts maintain simplicity of operation over routine expenditures while adhering to prudent disbursement rules and controls.

The SIS Commander is responsible for day-to-day oversight of the checking accounts. For the administrative account, funds from the City are deposited periodically. These funds then cover expenses such as building rent and utilities. City monies are also periodically deposited to fund the Special Enforcement Account (SEA), which is more directly linked to investigative activities.

The SEA is used to provide monthly cash advances for investigative fieldwork and money for the Narcotics Unit's Buy Fund. Each SIS member receives a minimal cash advance to pay for necessary expenses while undercover. At the end of the month, each SIS member who received an advance returns unexpended funds along with a report that outlines the use of funds not returned. The unexpended funds are re-deposited into the SEA checking account and a fresh advance is provided to the undercover officers.

Funds used for the Narcotic's Unit Buy Fund are maintained in a safe. Buy money is provided to detectives, on an as-needed basis, for use in investigations as either payment to informants or for use in undercover purchases of drugs or other contraband. The SIS commander is responsible for the oversight of the use of the funds.

### **Report Presentation**

The two sections that follow will present the results of our work. Because the two areas audited are distinct and separate from one another, each will be presented in its own report section. The first section deals with our review of RICO funds and compliance with applicable federal and state requirements. The second section addresses our review of the oversight over, and expenditures from, the SIS imprest accounts.

**RICO EXPENDITURES HAVE MET REQUIREMENTS,  
BUT THERE IS ROOM FOR IMPROVEMENT IN OVERSIGHT**

Overall, we found that RICO expenditures are properly controlled and reviewed to ensure that they comply with established federal and state requirements. This conclusion was based on our review of expenditures of federal and local RICO monies during fiscal years 1999/2000 and 2000/2001 (as of April 30, 2001). During the time period under review, there were no requests for expenditures of state monies (i.e., monies obtained from state prosecuted asset forfeiture cases). The expenditures we reviewed are presented in the following table:

**RICO EXPENDITURE REVIEWED**

<u>Expenditure Date</u>	<u>Reimbursement Date</u>	<u>Description</u>	<u>Amount</u>
10/23/98	08/13/99	Training	\$ 2,890
12/03/98	08/13/99	Westlaw Software	\$ 2,280
03/19/99	08/13/99	Surveillance Equipment	\$ 1,115
Various During FY 97/98 & 98/99	11/07/00	Police Vehicle Computer Program	\$ 552,520
Various During FY 97/98 & 98/99	11/07/00	Police Automated System	\$ 85,472
Various During FY 99/00	11/07/00	Police CAD System	\$ 350,000
01/24/00 & 05/10/00	11/03/00	Police Automated System	\$ 95,057
TOTAL			<u>\$1,089,334</u>

**SOURCE:** Documentation obtained from the RICO Administrator and the County Attorney's Office

We found that the expenditures were for law enforcement purposes, which is the general restriction on RICO fund usage. There was evidence that the budgetary process outlined for the use of the funds was followed. We also found evidence that both the Police Legal Advisor and the County Attorney's Office approved the expenditures that were submitted for payment. Additionally, we noted that the City has complied with the applicable ARS reporting requirements.

However, we do have concerns with the timeliness of funds use and the length of time funds have remained on deposit with the City. In addition, we found that controls need to be implemented to ensure that expenditures are tracked so that RICO monies can be reflected in the appropriate accounting centers. We also found that procedures need to be implemented to ensure



that reimbursement is obtained in a more timely fashion when City monies are initially used to pay for RICO expenditures. Moreover, we believe that City financial management reports could be enhanced with the inclusion of information on RICO funds on deposit with the County Attorney's Office and/or the State Attorney General's Office. Finally, we noted that, although federal reporting requirements were met, the timeliness of the reports could be improved.

These issues will be discussed in the sections that follow.

### **Funds Should Be Used in a Timely Manner**

In March of 1994, the DOJ issued "A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies" (federal guide). This booklet, along with its addendum, sets out requirements and guidance over federal RICO funds obtained by state and local law enforcement agencies. The guide indicates that monies should not be retained unnecessarily. It further indicates that these funds should generally not remain unspent for a period of time exceeding two years. During our review, we determined that the City did not comply with this guidance.

We analyzed the use of \$1,439,276 in federal RICO funds that the City had on deposit with the County Attorney's Office on June 30, 1996<sup>1</sup>. Of that amount, approximately \$894,000 was still held on deposit with the County two years later. Furthermore, approximately \$574,000 was still with the County for more than four years. We recognize that the City made a significant expenditure of funds in fiscal year 97/98 (FY 97/98) for capital projects, which were approved at the City level as an appropriate use of RICO funds. Had these expenditures been timely submitted to the County for reimbursement, the funds held on deposit would have been significantly reduced (see the discussion in the section that follows regarding timeliness of adjusting entries). However, with the addition of new funds each year, there is a potential for the monies to be held beyond the recommended two years unless qualified expenditures, that will be completed in a timely manner, are programmed as part of the City's Police Department budget.

While this issue is specifically related to compliance with federal guidelines, we believe any policy developed regarding the timely use of RICO funds should be expanded to include funds received from state and local forfeitures. Development of the policy should also consider the need to build a reserve for specific uses. This can be accomplished with a policy

---

<sup>1</sup> We did not determine how long the funds had been held prior to June 1996.

provision that allows monies to be reserved, if needed, as a funding source for Council approved projects. In this situation, a request for project approval should be submitted to the County Attorney and/or State Attorney General to avoid the risk of project funding being denied after expenditures have already been made.

We recommend that the City Manager direct the Police Chief to implement procedures that will ensure that all RICO funds will be used within the recommended two-year period set out in federal guidelines. Fund reserves should be restricted to those situations in which Council approves a plan to build a reserve for a particular project.

### **Unspent RICO Funds Should Be Returned to the Appropriate Oversight Agency**

Arizona statutes require that RICO funds be held on deposit with the County Attorney or State Attorney General. The use of monies on deposit with these offices is subject to their review and approval. This requirement provides an additional layer of oversight designed to ensure that funds are spent in accordance with federal and state restrictions.

During our review, we found that the City has maintained a balance of RICO funds for at least the last two years. According to the RICO Administrator, these monies represent a residual balance from the time during which the City requested funds in advance of intended expenditures. Ultimately, the monies were not used to fund RICO expenditures, which is why they are still on hand. As of April 30, 2001, these balances were more than \$217,000 in federal funds and more than \$15,000 in state and local funds.

Although applicable statutes do not specifically address the re-deposit of unused RICO monies, maintaining these funds on deposit in City accounts, may give the appearance that the City is not complying with the spirit of the statutes. While it is reasonable for the City to maintain RICO monies on hand for anticipated expenditures, we believe that the monies should be re-deposited to the appropriate oversight agency once it becomes apparent that the expenditures will not be made as planned. We believe that this should become evident upon the completion of a fiscal year. As a result, we recommend that the Police Chief require the RICO Administrator to immediately return all unused RICO funds from previous fiscal years, currently held by the City, to the appropriate oversight agency.

### **Sufficient Procedures Need to Be Implemented to Obtain and Deposit RICO Funds in a Timely Manner**

Within the City, expenditures are charged to accounts that are grouped by center. A center is the organizational unit to which the account information specifically relates. The practice at the City is to record expenditures, which qualify for RICO reimbursement, in a City general fund center<sup>2</sup> or capital project center<sup>3</sup>, depending on the nature of the item. As a result, City monies initially fund the expenditure. Adjusting entries then need to be made to reflect RICO monies as the revenue source for the expenditure. The adjusting entries are used to remove funds from the appropriate RICO center<sup>4</sup> and record the revenue in the general fund center or the capital project center to which the related expenditure was charged. In this way, the City is reimbursed for the expenditures.

Although the adjusting entries are used to properly record the funding source for the RICO expenditures, actual monies for the expenditures are obtained from the County Attorney's Office and/or the State Attorney General's Office. These offices maintain the City's RICO monies until they are needed. The RICO Administrator requests monies needed after the City has made the expenditure. If the expenditure is determined to be appropriate for RICO funding, a check is issued for pick up and deposit with the City.

During our review, we found that the adjusting entries, in some cases, have not been made and in others were not made in a timely manner. The failure to make these adjusting entries impacted the receipt of RICO monies because the RICO Administrator relied on reports of fund activity to trigger a request for monies from the County Attorney or the State Attorney General. Moreover, we found that checks provided by the County Attorney's Office were not always deposited on a timely basis.

#### ***Adjusting Entries Not Made to Properly Charge RICO Monies for Operating Expenditures***

With a check requisition, the SIS secretary initiates the payment of police operating expenditures that are to ultimately be paid from RICO monies. The check requisition is made against a City general fund center. As a result, the expenditure is initially treated as if it were to be paid from City

---

<sup>2</sup> In this report, general fund center will refer to a Police Department center used to track operating expenditures that are budgeted to be funded by RICO monies.

<sup>3</sup> A capital project center is used to track all expenditures related to a capital project, regardless of funding source.

<sup>4</sup> Prior to FY 2001/2002, RICO revenues on hand at the City were reflected in a trust fund. In FY 2001/2002 an accounting change was made to reflect the monies as special revenue.

monies. We reviewed fiscal year 1999/2000 expenditures recorded against the general fund center for state/local RICO expenditures (during this time period there were no expenditures reflected in the general fund center for federal RICO expenditures). Our purpose was to verify that the adjusting entries were made to transfer monies from the appropriate RICO center to the City general fund center for the purpose of expenditure reimbursement.

We found almost \$11,000 of expenditures that should have ultimately been paid for with RICO monies. However, we found no corresponding adjusting entries to credit the City general fund center and charge the RICO center. Without the adjusting entries, the appropriate RICO center was not drawn upon to reimburse the City for the related expenditures. Therefore, the information was not reflected in the financial reports used by the RICO Administrator as the source document to trigger his requests for payment. As a result, the City did not receive RICO monies to offset the expenses.

We believe that the adjusting entries were not generated because of confusion as to who is responsible for making the entries for RICO operating expenditures. The Police Budget Manager, who exercises some oversight of the RICO expenditures, was under the impression that Financial Services personnel were responsible for making such adjusting entries. However, the Accounting Coordinator responsible for maintaining the center(s), under which RICO falls, felt that the adjusting entries were the responsibility of the user (i.e., Police personnel). Our conversations with Financial Services management indicated that the responsibility for such adjusting entries would be assumed within their department.

As a result, we believe that the General Manager of Financial Services should take steps to ensure that the Accounting Coordinator makes needed adjusting entries to reimburse the City general fund for RICO operating expenditures initially paid with City monies.

***Adjusting Entries Not Made to Properly Charge  
RICO Funds for Capital Projects***

The funding of capital projects with RICO monies also follows a similar process as that described above. Expenditures related to capital projects are initially charged to capital project centers. To reflect the RICO funding source, adjusting entries have to be made against the appropriate RICO center(s).

While reviewing documentation obtained for this audit, we found an adjusting entry of \$987,993 made in January 2000. When we obtained the detail, we found that the adjusting entry was a correction of expenditures made in FY 97/98 and charged against three capital project centers. These projects were approved with partial funding to come from RICO monies, but

adjusting entries were not made to charge the appropriate RICO center and credit the capital project center(s) to accomplish the intended funding.

As a result, City monies financed all expenditures related to the projects from FY 97/98 through November 2000, the point at which the request for RICO funds was submitted. Had the Police Budget Manager not identified the lack of any adjusting entries, City monies could have been the ultimate funding source for the projects as opposed to the intended RICO monies.

Again, we believe that the lack of required adjusting entries was the result of uncertainty over responsibility for initiating the transactions. When this issue was discussed with the Financial Services' Capital Improvement Project (CIP) Coordinator, he indicated that he would be responsible for ensuring that all future required adjusting entries are made to charge the appropriate RICO centers for capital project costs when warranted. Therefore, we believe that the General Manager of Financial Services should take steps to ensure that the CIP Coordinator make needed adjusting entries to reimburse the City for capital project expenditures that are supposed to be funded with RICO monies.

***Proper Controls Should Detect  
Appropriateness of Adjusting Entries***

The two previous sections discuss adjusting entries not being made due to confusion over who was responsible for making them. The lack of adjusting entries for the operating expenses was identified in our audit and was not previously detected in the normal course of RICO administration. Although the Police Budget Manager detected the lack of adjusting entries for the capital project expenditures, detection was not made until more than a year and a half had passed. Furthermore, this detection was not the result of an established review designed to verify that necessary adjusting entries have been made.

As previously mentioned, unless the appropriate adjusting entries are made, the City, not RICO monies, funds the expenditures. In order to ensure that the necessary adjusting entries are made on a timely basis, a control process needs to be established and regularly implemented to make the related verifications. To be effective, the process should include verification that amounts posted to general fund and capital project centers as RICO expenditures reflect actual RICO activity. Moreover, the process should include verification that adjusting entries are made to the appropriate RICO centers, and that they are made for the amounts that match the RICO expenditures posted to the general fund and capital project centers. To ensure that any identified issues can be addressed in a timely manner, the process should be implemented on a regular basis that is not less than

once a year. Moreover, implementation of the process should occur at the end of each fiscal year.

As a result, we recommend that the Police Chief require the RICO Administrator to work with the Police Budget Manager to develop and implement procedures to periodically, but no less than annually, review RICO expenditures charged to RICO general fund and capital project centers to ensure that the accounts appropriately reflect RICO activity. The procedures developed should also include a verification that all adjusting entries made to the RICO centers agree with the related expenditure amounts.

***Monies Need to be Obtained on a Timely Basis***

Because the City maintains its RICO funds on deposit with the County Attorney's Office and/or the State Attorney General's Office (as required by ARS), the City must request its funds from these offices in order to use them for expenditures. For at least the past two years, it has been City practice to budget a planned expenditure using RICO monies as the revenue source, incur the expenditure, and then request funding monies from the County Attorney or State Attorney General. Basically, the City's general fund fronts the monies until the reimbursement check is received. This practice reduces the risk the funds will be requested but not spent.

According to the RICO Administrator, he requests funds on a quarterly basis. However, he said that he makes the requests on a more frequent basis if the expenditure is a significant amount. His requests are triggered by reports of RICO center activity. During our review, we found that, in at least one significant instance, RICO reimbursements were not made on a timely basis due to a delay in requesting the monies from the County Attorney's Office.

As discussed in the previous section, the City made a significant expenditure related to several capital projects in FY 97/98 using RICO funds as a partial funding source for the projects. In January 2000, the error was caught and an adjusting entry made. However, the RICO Administrator did not submit the request for approval and payment to the County RICO Administrator for more than ten months after the adjusting entry was made and the expenditure was reflected in the RICO center.

The City had sufficient funds on deposit with the County Attorney's Office to cover this deficit and received the funds after the request was made. When asked why ten months passed before the request was submitted, the RICO Administrator stated that he was involved with several large investigations and did not have time to make the request and pick up the funds.

During the period that RICO funds were not obtained, RICO centers were placed in a negative cash position and other City monies were basically covering the overdraft. As a result, these City monies were not available for investment and did not earn interest. Although the monies earn interest while on deposit with the County Attorney's Office, that interest is subject to the same restrictions as RICO funds and is, therefore, not available for general City use.

We believe that the implementation of appropriate oversight controls would have brought the delayed reimbursement request to light so that corrective actions could have been taken on a timelier basis. A reconciliation of RICO expenditures recorded in City general fund and capital project centers to monies received in the RICO centers would provide an indication of whether the needed reimbursement requests have been made. Further assurances can be obtained by verifying that expenditures recorded in the City centers agree with the detail submitted by the RICO Administrator in his reimbursement requests. To be effective, these oversight responsibilities should be undertaken by someone other than the RICO Administrator, who has insight into the subject matter. Moreover, the reviews should be performed periodically, but not less than once a year to coincide with the end of the fiscal year.

To prevent such delays from happening in the future, we recommend that the Police Chief require the RICO Administrator to request RICO monies from the County Attorney's Office and/or the State Attorney General's Office prior to RICO expenditures being made. In the event that the decision is made to continue to request RICO monies on a reimbursement basis, the RICO Administrator should ensure that the requests are made at least quarterly and in a timely manner.

We also recommend that the Police Chief require the Police Budget Manager to implement procedures to annually reconcile all RICO expenditures to monies received to ensure that all reimbursements have been obtained and deposited with the City on a timely basis. In addition, the reconciliation should include verification that City recorded expenditures agree with the detail submitted by the RICO Administrator in his reimbursement requests.

***Monies Should be Deposited on a Timely Basis***

In response to requests from the RICO Administrator, the County Attorney's Office and/or State Attorney General's Office issues checks to the City to fund RICO expenditures. The RICO Administrator physically retrieves and deposits the checks so that they are available to reimburse the appropriate general fund or capital project center. During our review we found

instances where the checks, once issued, were not deposited with the City on a timely basis.

We identified an instance in which the RICO Administrator requested funds from the County Attorney to reimburse the City for expenditures totaling \$6,285. The County Attorney's Office issued a check for that amount on August 13, 1999. However, the check was not deposited with the City until over five months had passed. In another instance, the RICO Administrator deposited a \$350,000 County Attorney reimbursement check with the City three weeks after its issue date. The RICO Administrator indicated that his investigative case workload plays a role in when he can make the trip to pick up the checks. As a result, delays in deposit of the checks with the City can occur.

Given the time delay in the first instance, and the amount of money involved in the second instance, we believe that the amount of time that expired between the deposits of these checks was not reasonable. As a result, we recommend that the Police Chief require the RICO Administrator to deposit checks, issued to fund RICO expenditures, into appropriate City accounts within seven days of the checks being made available. The Police Chief should require that reasons for delayed deposits be documented and retained by the RICO Administrator.

### **City Needs to Obtain Approval of Proposed Expenditure in Concert with Preparation of City Budget**

Current City practice is to program use of RICO funds as part of the City budget process. When RICO funding is proposed for a certain expense, the special funding source is identified as part of the budget request. However, request for approval from the County or State RICO Administrator does not occur until the expenditure has been made.

Requesting funds after the expenditure has been made opens the City to risk that the expenditure will not be approved by the oversight agency. If this situation were to arise, the City would need to use other revenue sources to cover the expenditure. In some situations, the expenditure may be immaterial but in the case of capital projects, the amount of funds in question can be significant.

We believe the practice of requesting RICO monies after the expenditure has been made should be discontinued and replaced with a process that requests approval prior to the submittal of planned use as part of the budget process or as soon as the need for expenditure can be reasonably anticipated, if the need is identified after the budget cycle. This process would reduce the risk that the expenditure may not be approved as



appropriate for RICO funding. As well, in situations where the RICO funds are only a portion of the budget request, it would ensure City management that the all funding would be available prior to making any other funding commitment.

We recommend that the City Manager require the Police Chief to submit proposed RICO expenditures to the County Attorney's Office or the State Attorney General's Office (depending on anticipated funding source) for approval prior to including the RICO monies as a funding source in the City budget process.

### **City Management Reports Should Fully Disclose the Availability of all RICO Funds**

As previously discussed, over the last six years a significant amount of the City's RICO monies have been left on deposit with the County Attorney's Office and/or the State Attorney General's Office. Although these monies were available for City use, we found that City practice has been to report the availability of RICO funds only once they have been physically obtained and deposited into City accounts. The Police Budget Manager maintains information on all RICO monies that are available to the City, including the monies on deposit with the County Attorney's Office and/or the State Attorney General's Office, but citywide financial management reports do not reflect this information.

As a result, while Police management may be fully informed as to the amount of funds available and their planned use, there is limited knowledge of this information to other interested parties. Insight into the availability of RICO monies to the City could impact both management's and the City Council's budget decisions.

We believe that this information would be beneficial to City management and City Council in fully understanding the potential funding sources for proposed police expenditures. As a result, we believe that the General Manager of Financial Services should take steps to ensure that City management and City Council are provided with reports that fully disclose all RICO monies available to the City.

### **Reporting Requirements Appear to Be Met, But Timeliness Could Be Improved**

With the administration of RICO monies, the City has reporting requirements that it must adhere to. These requirements are set out by the ARS and by the DOJ. Noncompliance could result in the denial of funds to the City. We reviewed the RICO Administrator's copies of reports

submitted to comply with these requirements for the last two fiscal years to date (as of April 30, 2001). Based on our review, it appears that the City has submitted the required reports. However, the timeliness of report submission to the DOJ could be improved.

***ARS Reporting Requirements  
Have Been Met***

ARS requires that any agency or department that receives RICO funds shall submit a calendar quarterly report that sets forth the sources of all RICO monies and expenditures. Failure to comply with this requirement within 45 days of the report due date, without good cause, would result in the violating agency not being permitted to receive its RICO monies held by the County Attorney's Office and/or the State Attorney General's Office. As part of our work, we verified that the RICO Administrator had copies of the required reports to evidence that they were generated and submitted as required. We also obtained verification from the County Attorney's RICO Administrator that they received the reports within the prescribed timeframes. As a result of our review, we concluded that the City has complied with these reporting requirements.

***Reporting to the Department of  
Justice Could Be More Timely***

One of the requirements of the federal guide is the submission of an annual certification report to the DOJ within 60 days after the close of the agency's fiscal year. This would be no later than August 31 of each year for the City. The head of the reporting law enforcement agency and a designated official of the governing body must sign the report which certifies that the accounting of federal RICO funds received and spent is accurate and in compliance with the applicable guidelines and statutes. The submission of the report is a prerequisite to the approval of any federal RICO sharing request and noncompliance may result in the denial of an agency's request.

We reviewed copies, provided by the RICO Administrator, of the annual certification reports submitted to the DOJ related to fiscal years 1999 and 2000. We verified with a DOJ official that the reports were received at their office. We found that the reports contained the required information and signatures. However, the dates on the reports indicated that they were submitted four months and two months, respectively, beyond their due dates. Because the forms were submitted, the standing of the Police Department, to share in federal RICO funds, appears to have been preserved. Nonetheless, we believe that the Police Chief should require the RICO Administrator to submit the annual certification reports, due to the DOJ, within the due date prescribed in the federal guide.

## **USE OF IMPREST CHECKING ACCOUNT FUNDS COMPLIES WITH GUIDANCE, BUT IMPROVEMENTS ARE POSSIBLE**

We found that use and control of the two-imprest checking accounts, in general, has been in compliance with the SIS Operations Orders. We did not find any intentional misuse of funds and controls, for the most part, appear to be working. The SIS Commander and unit supervisors are completing monthly individual and unit expenditure reports and documenting Buy Fund purchases. Fund replenishments for both checking accounts were consistently deposited in a timely manner and we found that, for all summaries reviewed, the monies reflected on the reports matched the amounts disbursed per the related bank statements. We also found that appropriate supporting documentation was maintained for all amounts paid from the administrative checking account.

Our unannounced count of cash on hand in the Narcotics Buy Fund indicated that the Narcotics Unit Supervisor's records matched the amount of money in the safe. In addition, we found that reconciliations were performed on the administrative checking account and the SEA checking account bank statements for each of the 16 months in our sample (32 total bank statements).

Although we noted positive aspects to the control and oversight of the funds disbursed through the imprest checking accounts, we found several areas in which the Operations Orders could be clarified. The Orders are the primary guidance for the appropriate use of these funds. While they provide a good starting point, we believe that more can be done to clarify the intent of the Orders and to demonstrate that related controls are being effectively implemented.

The Operations Orders do not address when a receipt is required as supporting documentation. Nor do they clearly define what constitutes the appropriate use of expense monies. We also noted that the Orders do not provide sufficient guidance on when it is appropriate to use expense monies for the purchase of meals. We found that the Orders do not require that monthly Report of Expenditures be signed and dated by the original preparer. Nor is there a requirement for unexpended funds to be returned and re-deposited within a specific time frame. Finally, we noted that the Orders do not require the Unit Supervisor and SIS Commander to sign and date the summary Report of Expenditures as a means of evidencing supervisory review of the expenses.

Improvements to the Orders are discussed in more detail in the sections that follow.

## **Retention of Supporting Documentation and Operations Orders Clarification Could Enhance Controls**

The SEA checking account is used to provide expense monies to SIS unit personnel at the beginning of each month for use in their undercover fieldwork. Unit supervisors collect any unused expense monies, along with the Report of Expenditures that detail the use of expended funds, from each unit member at the end of each month. The supervisor reviews them for appropriateness and prepares a summary Report of Expenditures for the unit. This summary, along with the individual reports, is forwarded to the SIS Commander for his review and approval.

We reviewed a sample of each unit's monthly Report of Expenditures, including both individual and unit summaries. We found that the reports were consistently generated and that the unit summaries were supported by the individual reports. However, we found that the supporting documentation for individual expenditures was not adequate. Receipts were not maintained in instances where it appears they would have been readily available. Moreover, expenses were rounded to the nearest dollar on a regular basis. This is possibly the result of not having the receipts to rely on when completing the Report of Expenditures and, as a result, underscores the value of maintaining such receipts. We also noted that the explanations were not detailed and did not stand alone as an indication of why the items were necessary to be paid from the expense monies.

We also found instances in which a number of purchases, paid from the expense monies, could have been more appropriately made using other City purchasing options. For example, travel expenditures, hotel and food expenditures related to meetings, and membership dues appear to be items that would fall under this category. Purchasing options such as a City Procard or a check requisition would have been more appropriate and would have allowed the expenditure to be properly reflected within the Police Department financial records.

Because of the above noted instances, we believe the Police Chief should require the SIS Commander to revise the SIS Operations Orders to require that receipts be obtained, when practicable, and attached to the monthly Report of Expenditures to document the use of expense monies. Reasons why receipts are not obtained should be documented in the monthly Report of Expenditures. Moreover, we believe the Police Chief should require the SIS Commander to revise the SIS Operations Orders to clearly define the underlying intent of providing the monthly expense monies to members of SIS units.

### **Use of Expense Monies for Meals Should Be Clarified**

The SIS Operations Orders indicate that, with the exception of paying the bill of a confidential informant at a restaurant or bar, the monthly expense monies “are not to be used for meals unless authorized by the unit supervisor.” This provides the impression that meals are to be purchased with the expense monies on an exception basis only. The Operations Orders do not provide any further guidance as to the circumstances that would justify the use of the expense monies for meals.

We found that the purchase of meals with expense monies is not regularly supported with any explanation as to why the meals were required. Moreover, the documentation we reviewed did not contain any direct evidence that a unit supervisor approved the meal purchases. Although the Operations Orders do not require such approval be documented, it would be otherwise difficult to reconstruct whether such approval was obtained.

The amount of expense monies used to purchase meals does not appear to be significant on its face. Our review of a sample monthly Report of Expenditures indicated that, on average, each unit member used \$18 of expense monies for all items (not just meals) per month. Although this average is not material, expense monies tend to be perceived by the public as a perk and, therefore, are more sensitive to public scrutiny. For this reason, we believe the Police Chief should require the SIS Commander to revise the SIS Operations Orders to clearly establish guidance on when it is acceptable to use expense monies for meals, and on the level of documentation necessary to evidence a unit supervisor’s approval.

### **Deposit of Unexpended Funds Could Be More Timely**

When expense monies are advanced, controls need to be in place to ensure that unexpended funds are returned, as well as re-deposited in the appropriate financial account. This reduces the potential for misuse or misdirection of funds. As part of our review of the monthly Report of Expenditures, we attempted to evaluate the timeliness in which unexpended funds were returned for re-deposit. We also traced the unexpended expense monies to the SEA checking account bank statements to verify that the funds were deposited into the appropriate account. To be considered an appropriate deposit, the amount of unexpended funds for the month, for each unit, would have to match the amount of the deposit.

During this review, we found that the unit members were not consistently dating their monthly Report of Expenditures (i.e., the point of time at which they returned their unused expense monies to their supervisor). We believe

the failure to date the reports was primarily the result of two different forms in use during the period under review. One form provided a line for the date and one did not. As a result, we could not determine when the unexpended funds were returned to the unit supervisor.

Without consistently dated individual reports, we elected to use the end of the month as the point at which the unit supervisor would have collected unexpended funds for re-deposit. This date was used because we were told that the practice is to provide replacement funds to the unit supervisor at the beginning of each month for distribution to their unit members. Using the end of the month as the starting point for days elapsed to the deposit of the unexpended funds, we determined that, on average, 11 days elapsed before the deposit of unexpended funds was made. One deposit took 29 days while another took 35 days. Holding unexpended funds for more time than necessary increases the possibility of commingling them with personal funds and inadvertently diverting the monies to an unauthorized use.

While the SIS Operations Orders do not establish a desired timeframe for deposit of the unexpended funds, we believe that these monies should be deposited as soon as possible to properly safeguard the cash. The SIS Commander said that he thought that ten calendar days after the end of the month would be a reasonable amount of time to make the deposit. Because of the nature of the undercover work and potential conflicting schedules that could delay collection and deposit of the funds, we agreed with the proposed timeframe. To effectively enforce any deposit requirements, they must be clearly communicated to the responsible parties. Therefore, we believe the Police Chief should require the SIS Commander to revise the SIS Operations Orders to: 1) establish timeframe requirements for the monthly deposit of unexpended expense monies; and 2) require that reasons for not meeting the timeframe for monthly deposits be documented.

Furthermore, in order to exercise proper control over the timely deposit of the unexpended funds, insight is needed as to when the unit supervisor collected the monies. This requires uniform use of a monthly Report of Expenditures form. For this reason, the Police Chief should require the SIS Commander to revise the SIS Operations Orders to require the uniform use of a monthly Report of Expenditures form, which contains a date line for completion with the date that the unit members submit their unexpended funds to their unit supervisor.

### **Oversight of Monthly Report of Expenditures Needs to Be Documented**

A key control over the use of the expense monies is supervisory review. This is the point at which expenditures should undergo scrutiny to verify that they comply with SIS Operations Orders requirements. This review is afforded at the end of each month when unit members submit a monthly Report of Expenditures to their unit supervisor. In turn, the unit supervisor submits a summary of the monthly Report of Expenditures to the SIS Commander for his review. A supervisor's signature is required to provide evidence that the reports were reviewed.

We found that the unit supervisors and the SIS Commander were not consistently documenting their review and approval of the monthly Report of Expenditures and the unit summaries respectively. Lack of a signature leaves uncertainty as to whether expenditures are being properly monitored. We believe that the unit supervisors and the SIS Commander should be more diligent in documenting their reviews of the above-mentioned reports. As a result, the Police Chief should require the SIS Commander to revise the SIS Operations Orders to require that supervisory reviews of the monthly Report of Expenditures be documented with signatures and dates.

### **Buy Fund Activity Appears Appropriate, But Monitoring Should Be Better Documented**

The Narcotic's Buy Fund is a source of cash held by the SIS unit in case funds are needed to facilitate certain undercover activities. The funds are held in a safe that has a changeable combination. Knowledge of the combination is restricted to the Narcotics Unit Supervisor and the SIS Commander. The SIS Operations Orders indicate that, not less than once a month, the SIS Commander is to perform a cash count to verify that the safe contains the appropriate amount of money. This inspection is to be documented by the Commander's initials and date on the right hand side of the applicable Report of Expenditure Form. The ISB Deputy Chief is also to perform the same procedure on a random basis no less than once every six months.

As part of our work, we conducted an unannounced count of the cash in the Buy Fund safe and found that the cash on hand matched the Narcotics Unit Supervisor's record of the balance at that time. We also reviewed a sample of Narcotics' Buy Fund transactions and determined that applicable requirements were met. In general, the funds were used for appropriate purposes. Adequate documentation was found which supported the use of

the funds and related documentation evidenced that the funds were used for their stated purpose.

However, when we reviewed the Report of Expenditure Form for evidence of appropriate supervisory cash counts we found that requirements were not always adhered to. For the 23-month period we reviewed, there were 14 months without evidence that the SIS Commander performed the review. Moreover, there was no evidence that the ISB Deputy Chief reviewed the fund at any time during this 23-month period.

In order to avoid a situation where Buy Fund irregularities go undetected for an extended period of time, we believe that the Police Chief should require the SIS Commander and the ISB Deputy Chief to adhere to the SIS Operations Orders requirements for monitoring the Buy Fund and documenting their reviews with their initials and the date.



## **OBJECTIVE, SCOPE, AND METHODOLOGY**

This audit did not include a review of Police Department procedures and practices used to carry out its law enforcement responsibilities. The specific objectives of this audit were to:

- Review the internal control environment over RICO funds and imprest checking account maintenance and activities and to verify compliance with applicable statutory requirements.
- Follow-up on the status of agreed upon actions that resulted from our 1995 audit (Audit Report No. 9105).

The initial stage of our audit consisted of the survey phase. The survey phase of an audit is designed to obtain a sufficient understanding of the subject matter and the related internal control environment to properly plan fieldwork. During the survey phase, we conducted tests to assess the reliability of internal controls over the administration of the RICO funds and the imprest checking accounts. Information obtained in the survey phase served as the basis upon which fieldwork testing was determined.

As was presented in the report body, this section will present RICO and Imprest information separately.

### ***RICO Survey***

During the RICO survey phase, we interviewed City staff involved with oversight, management, and tracking of the RICO funds. We also interviewed members of the Maricopa County Attorney's Office and the State Attorney General's Office to obtain information regarding their oversight responsibilities for City RICO funds on deposit with them. We asked them about City performance in complying with requirements imposed over the use and management of RICO funds. In addition, we interviewed a member of the U.S. Department of Justice's Asset Forfeiture and Money Laundering section to obtain the most current guidance over the use of federal RICO funds. We reviewed City documentation that evidenced RICO activity and noted any issues that appeared to be present. We followed up with City staff to obtain additional information when necessary.

### ***RICO Fieldwork***

During fieldwork, the portion of our audit that addressed City RICO fund oversight and use was primarily focused on activity that occurred from July 1, 1999, to April 30, 2001. The following eight tests were conducted during the fieldwork phase of our audit.

- Test #1:** Review the amount of time federal RICO funds are held before expended.
- Objective:** Determine if federal RICO funds are expended within the two years of receiving them.
- Method:** We obtained the Asset Forfeiture Detective's spreadsheet of federal RICO activity that occurred from July 1, 1996, to April 30, 2001. This spreadsheet contained the City's federal RICO balance as of June 30, 1996. Starting with that balance, we then subtracted subsequent federal RICO expenditures in chronological order. We did not add any subsequent federal RICO revenue because we were trying to determine the amount of time it took to fully exhaust the federal RICO balance on hand at June 30, 1996.
- Criteria:** The U.S. Department of Justice's "Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies" indicates that federal RICO funds should not be retained unnecessarily. It states, "Generally, monies received should not remain unspent for a period of time exceeding two years from the date of their receipt."
- Results:** We found that of the \$1,439,276 federal RICO balance on hand at June 30, 1996, \$573,952 was still unspent on November 8, 2000. The federal RICO expenditures recorded on November 9, 2000, were sufficient to thoroughly exhaust the \$573,952. This indicates that these federal RICO funds were held for over four years and four months before they were expended.
- Test #2:** Review oversight of City RICO funds on deposit with the County Attorney's Office.
- Objective:** Determine if the Asset Forfeiture Detective appropriately tracks City RICO funds on deposit at the County Attorney's Office.
- Method:** For the period from July 1, 1999, to April 30, 2001, we obtained County Attorney records of RICO activity for Scottsdale RICO funds they had on deposit. For that same period, we also obtained the Asset Forfeiture Detective's spreadsheets, which he maintains to track activity for City RICO funds on deposit at the County Attorney's Office. We compared the records to each other to determine whether there were any differences.

**Criteria:** To properly track City RICO funds in possession of the County Attorney's Office, the Asset Forfeiture Detective should maintain his own independent record of the RICO activity so that he can verify the records maintained at the County.

**Results:** For the period reviewed, we found that with the exception of a \$10.40 discrepancy, there were no other unexplained differences that exceeded one dollar.

**Test #3:** Review City compliance with U.S. Department of Justice federal RICO reporting requirements.

**Objective:** The objective of this work is to verify that an annual certification report was generated for each of the past two fiscal years and to verify that appropriate signatures are on the certification.

**Method:** We accessed the Asset Forfeiture Detective's files, with him present, and reviewed his copies of the annual certification reports provided to the U.S. Department of Justice for fiscal years 1999 and 2000. We reviewed the reports for appropriate signatures and compared the dates on the reports to a due date of August 31.

**Criteria:** The U.S. Department of Justice's federal guide requires that any state or local law enforcement agency that received or held federal RICO forfeitures shall submit an annual certification report to the Department of Justice 60 days after the close of the agency's fiscal year. This would be no later than August 31 of each year for the City. The head of the law enforcement agency and a designated official of the governing body must sign the report. The federal guide indicates that the submission of the report is a prerequisite to the approval of any equitable sharing request. Noncompliance may result in the denial of an agency's sharing request.

**Results:** We found that the report for fiscal year 1999 was present and was signed by a Deputy Chief and the City Manager and was dated January 10, 2000 (over four months beyond the August 31 due date). We also found that the fiscal year 2000 annual certification report was present in the Asset Forfeiture Detective's file and was signed by a Deputy Chief and the City Manager. The form was dated November 3, 2000 (two months beyond the August 31 due date).

- Test #4:** Review compliance with ARS reporting requirements.
- Objective:** The objective of this work is to determine whether the City met ARS requirements for filing quarterly reports with the County Attorney's Office.
- Method:** We reviewed the records of the Asset Forfeiture Detective to obtain any quarterly RICO reports he had filed with the County Attorney's Office during the period beginning July 1, 1999, through June 11, 2001 (the date of the review). We reviewed the reports to verify that they contained RICO revenues received and expenditures for the period. We also contacted the County Attorney's RICO Administrator to verify that she had received the reports and to verify that they had been received on a timely basis.
- Criteria:** ARS requires that, each quarter, any political subdivision of the state that receives RICO monies shall file a report with their County Attorney's Office. The report shall set forth the sources of all monies and all expenditures. The report is to be filed on or before January 15, April 15, July 15, and October 15 of each year. The ARS indicates that if the report is not filed within 45 days of the due date, and there is no good cause, the County Attorney shall make no expenditures from the fund for the benefit of the political subdivision.
- Results:** For the period reviewed, we found that the Asset Forfeiture Detective had copies of all seven of the reports that should have been filed. In addition, the County Attorney's RICO Administrator verified that all seven of the reports had been received at her office within the prescribed timeframe.
- Test #5:** Review City legal concurrence with RICO expenditures.
- Objective:** The objective of this work is to verify that the Police Legal Advisor reviewed and approved proposed RICO expenditures.
- Method:** From the Police Budget Manager, we obtained Police Legal Advisor documentation that addresses concurrence with proposed RICO expenditures for Fiscal Years 1999/2000 and 2000/2001.
- Criteria:** Proposed RICO expenditures should have the approval of the Police Legal Advisor before being incorporated into the City budget.

- Results:** We found that for both fiscal years reviewed, the Police Legal Advisor had approved the proposed RICO expenditures.
- Test #6:** Review RICO expenditures for appropriateness.
- Objective:** The objective of this work is to verify that the RICO expenditures for the period from July 1, 1999, to April 30, 2001, were for law enforcement purposes and that the monies were deposited with the City.
- Method:** We obtained and reviewed County Attorney reports that provided insight into RICO activity in the accounts maintained for the City. From these reports, we identified all expenditure activity that occurred between July 1, 1999, and April 30, 2001. We accessed the Asset Forfeitures Detective's records to obtain the documentation that supported these expenditures. Using this documentation, we verified that each amount disbursed by the County Attorney's Office was supported by a corresponding City cashier receipt which evidenced deposit with the City. We also verified that supporting documents indicated that the expenditures were for law enforcement purposes.
- Criteria:** RICO expenditures are restricted to law enforcement purposes. In addition, monies disbursed from the City RICO funds on deposit with the County Attorney's Office should be deposited with the City so that they can be properly applied to the RICO expenditure for which they were requested.
- Results:** For the period, we found that only four RICO disbursements were made for the City, all out of the County Attorney's Office. We found that each of these four disbursements was supported by a corresponding deposit with the City cashier. The supporting documentation for the related expenditures indicated that they were for law enforcement purposes. The fact that the funds were provided by the County Attorney's Office also indicates that their own review concluded that the funds were for law enforcement purposes.
- Test #7:** Review adjusting entries for RICO operating expenditures.
- Objective:** The objective of this work is to determine whether the City's general fund was reimbursed for expenditures made for RICO operating items.

- Method:** We reviewed fiscal year 1999/2000 charges made to the general fund center for state/local RICO expenditures. We then reviewed the trust fund center for state/local RICO expenditures in order to determine whether there were any adjusting entries for corresponding amounts to reimburse the general fund for the expenditures.
- Criteria:** The City's general fund should be reimbursed from trust fund RICO center(s) for expenditures that are budgeted from RICO funds.
- Results:** For the fiscal year 1999/2000 we found that the general fund center for state/local RICO contained \$10,598 of expenditures. We found no corresponding adjusting entries to the trust fund state/local RICO center.
- Test #8:** Review RICO revenue check and/or cash tracking forms.
- Objective:** The objective of this work is to determine whether a form is used to track the date RICO revenue checks and/or cash are received, the chain of custody of the check and/or cash, and the date deposited with the County Attorney's Office. An additional objective of this work is to verify that these forms are retained within SIS and are supported by relevant documentation.
- Method:** We obtained County Attorney records on deposits made to City RICO accounts maintained by their office. These reports indicated that, between July 1, 1999, and April 30, 2001, the City had made 13 deposits into the state and local RICO account maintained at the county and 12 deposits to the federal RICO account. Three deposits from each of the two accounts were judgmentally selected as the sample for our review. The sample represents approximately 25 percent of the deposit transactions that took place during the applicable timeframe. The sample was selected by starting with the first deposit appearing on the County Attorney record of activity for each account and picking every fourth deposit. This resulted in the selection of 3 deposit transactions each for the state and local RICO account, and for the federal RICO account.
- Each of the selected deposit transactions was traced to the related tracking forms in the Asset Forfeiture Detective's files. This was done to verify that there was a record of the City personnel who were in possession of the RICO check and/or cash between the time of the court ordered forfeiture and the

deposit with the County Attorney's Office. The forms were reviewed to verify that, along with signatures, there were dates indicating when the City personnel came into possession of the check and/or cash. We verified that the deposit amount, per County Attorney records, matched the amount on the tracking form. We also verified that the deposit amount matched supporting documentation in the Asset Forfeiture Detective's files. The amounts of deposited checks were verified against copies of the checks in the Asset Forfeiture Detective's files. Cash deposits were verified against the forfeiture amounts contained in the related court order documents.

**Criteria:** To properly track RICO checks and/or cash, once court awarded to the City and prior to the point they are deposited with the County Attorney's Office, a form should be used and retained which indicates who at the City was in possession of the RICO checks and/or cash. Such a form would allow for reconstruction of the chain of command should any issues arise as to the proper safeguarding of the funds.

**Results:** We found that a tracking form supported each of the six transactions under review. Each of these forms contained signatures and dates indicating the chain of custody of the RICO checks and/or cash until they were deposited with the County Attorney's Office. Copies of checks in the Asset Forfeiture Detective's files supported the amounts of the federal RICO deposits. Court order documents in the Asset Forfeiture Detective's files supported the state and local RICO deposits under review.

***Imprest Survey***

During the imprest survey phase, we interviewed the SIS Commander, as well as the supervisors for the Narcotics Unit, the Special Assignments Unit, and the Intelligence Unit. The interviews were designed to obtain insight into the practices and available documentation related to the imprest checking accounts. In addition, we obtained and reviewed the SIS Operations Orders to identify criteria related to maintenance, use, and oversight of the accounts. In order to determine if controls were operating as intended, we reviewed 16 months of bank reconciliations for each of the two imprest checking accounts. We found that the reconciliations were supported by appropriate documentation. In addition, we found that the reconciliations appeared to indicate that appropriate management oversight was exercised over the imprest checking accounts.

To verify that the Narcotics Unit supervisor properly tracks Buy Fund monies, we conducted an unannounced count of the Buy Fund monies and compared the results to the balance in the supervisor's records. We found that the amounts matched. To determine if the Narcotics Unit supervisor tracked monthly expense monies, we reviewed the Narcotics Unit's Reports of Expenditures for each month of the 2000 calendar year. We found that, in general, the reports were being generated by unit members, summarized by the unit supervisor, and provided to the SIS Commander.

***Imprest Fieldwork***

For imprest related fieldwork, expenditures selected for review were from the period beginning with July 1, 1999, and ending with June 5, 2001. This represents fiscal year 2000 and 2001 to the point at which our testing was started (June 5, 2001).

Five tests were conducted. For testing the administrative imprest checking account and Buy Fund expenditures, we used Excel's random selection tool to obtain a sample of five months (two in fiscal year 2000 and three in fiscal year 2001). We used the same sample months to test the monthly Report of Expenditures. For testing the buys and informant payments, we judgmentally selected a sample of ten buy transactions. We also planned to select ten informant transactions, however, we determined that there were only five informant payments during the audit period. As a result, all five payments were selected for testing. These samples were not intended to be statistically representative of the population and no assertions were made about the population based on the samples. The samples were used to assess the performance of internal controls.



**Test #1:** Review of bank statements.

**Objective:** Determine if all City funds issued for the imprest checking accounts were appropriately deposited.

**Method:** For the period between July 1, 1999, and June 5, 2001, we obtained a list of all checks issued to the SIS Commander or Deputy Chief for the replenishment of the imprest account from the City Accounting Manager. We then traced these 16 checks to imprest account deposit slips and the bank statements.

**Criteria:** All checks issued for replenishment of the imprest checking accounts should be deposited into the imprest checking accounts within seven days.

**Results:** We were able to trace all 16 checks in our sample to the bank statements and, all but one, to deposit slips for the imprest checking accounts. Average time from the check date to time deposited was two days. One check was deposited eleven days after the date issued. We cannot tell when the check was actually picked up from Accounts Payable (A/P), so we cannot say with certainty that SIS held this check for any period of time.

**Test #2:** Review of the monthly Report of Expenditures.

**Objective:** Determine if the monthly Report of Expenditures are processed in accordance with the SIS Operations Orders and reflect appropriate management of funds.

**Method:** We verified that there was an individual Report of Expenditures for each unit member who received expense money. We traced expense funds returned to the corresponding deposit slip and bank statement. We reviewed each report for completeness, verified the math, and reviewed each item for appropriateness as defined in the SIS Operations Orders.

We verified that the supervisor for each of the three units turned in a monthly Report of Expenditures to the SIS Commander. We verified the Commander's review as evidenced by his initials, the unit supervisor's signature and date, and that the balance returned matched the total of the Individual Report of Expenditures.

**Criteria:** Applicable criteria found in the SIS Operations Orders is as follows:

- At the end of each month, each detective is required to submit, to his supervisor, a Monthly Report of Expenses Form.
- Each unit supervisor is required to submit, to the SIS Commander, a Monthly Report of Expenditure Form.
- At the end of each month, the SIS Commander will account for all funds distributed to detectives during the month and will distribute funds for the following month.
- Expense monies may be used for:
  - Meeting with an informant at a restaurant and paying his bill.
  - Purchasing beverages while on a liquor establishment surveillance.
  - Purchasing beverages at a liquor establishment while on vice related surveillance.
  - Purchasing items when a target enters an establishment and a cover must be used.
  - Purchasing vice related publications by Intelligence Unit personnel and the designated Special Assignments Unit Vice Officer.
  - Purchasing refreshments while on field events that extend beyond tours of duty with approval of a supervisor.
  - Other purchases with prior approval of a supervisor.
- Expense monies may not be used for:
  - Paying for meals at a restaurant when meeting with an officer of another agency to trade information.
  - Paying an informant.

- Paying for meals unless authorized by the unit supervisor.
- Paying for travel outside of the Valley when normal City procedures should be followed.
- Circumventing City purchasing policies.
- In addition, using prudent business practices, we developed and applied the following criteria:
  - The person preparing the individual report should review, sign, and date it.
  - The unit supervisor should review and sign the individual expenditure reports for all persons reporting to him and sign the monthly rollup report for his unit.
  - The SIS Commander should review and sign the monthly rollup reports.
  - Reports should be submitted and remaining expense money deposited within seven days of the end of the month.
  - If deposits are not made seven days after the month end, a reason should be documented.
  - Any expenditure item over \$150 should have appropriate authorization documented.
  - The total of the unit individual expenditure reports should equal the total on the monthly unit reports and the amount deposited.

**Results:** In all cases, the beginning balance reported on the Monthly Expenditure Reports, and amounts returned, matched the amounts disbursed on the bank statement and the deposit slip amounts. For all units combined, the average monthly expenditure for the period reviewed was \$315. All monthly unit rollup reports were completed and signed by the unit supervisor with one exception. All individual Reports of Expenditures for each unit member, in our sample months, were located with one exception.

Receipts were not kept for expenditures when it appeared to be feasible for the detectives to obtain receipts (non-undercover work). We also noted that amounts on the individual and unit reports were rounded to the nearest dollar.

The SIS Commander had not signed any of the unit supervisor's individual reports to evidence his review. He also did not sign the Monthly Unit Rollup Reports for 4 of the 5 months reviewed. One unit supervisor was not signing the supervisor space on the individual reports. All individual reports were signed, however, 44 of the 88 reports reviewed (50 percent) did not contain dates. We believe that this is mainly because two different Report of Expenditure Forms were being used. One form provides a line for the date, while the other does not.

Per agreement with the SIS Commander, we established 10 days within the end of the month to be reasonable criteria for deposit of unused expense monies. Of the 15 deposits we reviewed, 11 were made within 10 days of the end of the month. The other 4 deposits were not made until after 10 days had passed. The average, for the months sampled, was 11 days after the end of the month. One deposit was 35 days after the end of the month and one was 29 days after month end. Reasons for delays were not documented, however, it does not appear that any one unit is responsible for the bulk of the delays.

Documentation was not adequate to make a decision regarding whether a purchase was allowable per SIS Operations Orders. Many reports had neither a case number nor a clear explanation of why the expenditures were needed.

We found no explanation as to why extra duty lab call out or surveillance meals were allowed. In addition, we were not able to determine if the supervisor approved these purchases. The following purchases appear to be regular department expenditures that should be paid through other means: travel expenses, hotel and food for an Intel meeting, membership dues to Tri State Intelligence Association, tips for car wash workers, gasoline, parking costs, car title expenses, and coffee and muffins for a training class.

**Test #3:** Review of administrative imprest expenditures and supporting documentation.

**Objective:** Determine if administrative imprest expenditures appear reasonable and adequately supported.

**Method:** For each month in the sample, we obtained the administrative imprest account bank statements and traced each expenditure item cleared during the month to supporting documentation. We reviewed each of these invoices for appropriateness as an administrative expenditure and for adequacy.

We also obtained a copy of the building lease contract from the SIS Commander and verified the accuracy of the amounts paid out of the fund for rent payments.

**Criteria:** Expenditures should be for administrative purposes.

Adequate supporting documentation should be maintained for all expenditures.

Rent amounts should comply with lease terms.

**Results:** For each of the months selected, there were two checks written out of the administrative imprest account. One check was for rent and one for electricity. Supporting documentation was maintained for the transactions reviewed and amounts paid for rent matched the lease agreement.

**Test #4:** Review the Buy Fund log.

**Objective:** Determine if appropriate management oversight is exercised over the Buy Fund.

**Method:** We obtained the Buy Fund log, which is kept on a Report of Expenditures Form, for the audit period of July 1, 1999, to June 1, 2001. We reviewed the log for the SIS Commander initials, which indicates that he has verified the Buy Fund balance against the related monthly expenditure form. We also reviewed the log for the presence of the ISB Deputy Chief's initials at least once every six months as an indication he has verified the Buy Fund balance against the related monthly expenditures form. We did not include June 2001, as the month was not completed at the time of this review.

**Criteria:** The SIS Operations Orders state:

- No less than once a month, the SIS Commander will inspect the Buy Fund account monies to ensure that the amount in the safe matches the Report of Expenditure Form. The Commander will document the inspection by placing the date of the inspection and his initials on the right hand side of the form. The SIS Commander will advise the ISB Deputy Chief of the results of the monthly inspection and any discrepancies.
- The ISB Deputy Chief, on a random basis, will also conduct the above procedure no less than once every six months.

**Results:** Of the 23 months reviewed, 14 (61 percent) did not have evidence of the SIS Commander's review. Reviews were not evidenced for the following months: August 1999, September 1999, October 1999, December 1999, January 2000, April 2000, June 2000, July 2000, August 2000, September 2000, November 2000, December 2000, January 2001, and April 2001. In addition, we found no evidence of the ISB Deputy Chief's review during the 23-month period.

**Test #5:** Review Buy Fund Expenditures and supporting documentation.

**Objective:** Determine if Buy Fund Expenditures comply with SIS Operations Orders.

**Method:** We traced each buy transaction in the selected sample to receipts to determine if all appropriate supporting documents were present. We traced each transaction to the related Narcotics file to verify that the report information supports the transaction details and that there was an impound receipt for the purchase. In addition, we verified that the transaction was witnessed by at least one other officer.

We traced each Confidential Informant transaction selected to the informant's file and verified that there was a Scottsdale Police Department Informant Payment that documented the date, officer, and description of payment. We also verified that receipts were complete.

**Criteria:** The SIS Operations Orders require that:

- The SIS Buy Fund account will only be used for:
  - Purchasing illegal items or contraband including, but not limited to, drugs and stolen property.
  - Purchasing information from documented department informants.
  - Any other type of purchase or use must have prior written approval from the ISB Deputy Chief.
- After making a Buy Fund purchase, the officer will document it on a triplicate receipt. The original goes to the Narcotics Unit supervisor, the second copy is placed in the case report file, and the third remains in the receipt book. The receipt will include:
  - The date.
  - The amount of the purchase.
  - What was believed to be purchased.
  - The Department Report number.
  - The SIS case file number.
  - The officer's signature.
- At least one other officer, in addition to the requesting officer will meet with a Confidential Informant.
- The informant will be required to sign a Scottsdale Police Department Informant Payment form which documents:
  - The date.
  - The officer making the payment.
  - Brief description of the reason for the payment.
  - Any Department Report or SIS case file numbers.

- Signatures of both officers making the payment and a witness officer if available.
- Signature of the Narcotics Unit supervisor.
- The officer making the informant payment will also document the payment on a triplicate receipt the same as would be done for the purchase of illegal items or contraband as stated above. The receipt will include:
  - The date.
  - The amount of the payment.
  - The informants Confidential Informant file number.
  - Any Department Report or SIS case file numbers.

**Results:** We were able to trace all Buy Fund purchases selected from the log to receipts in the Buy Fund safe and to the corresponding receipt and supporting documentation in the case file. All information on the receipts was complete and matched with the exception of one transaction (the date on the receipt did not match the log). There was also one transaction in which the case number, although in the log, was not included on the receipt.

All expenditures reviewed appeared to be for drugs with the exception of one transaction (a detective was reimbursed for travel expenses). The drug transactions reviewed had copies of the impound sheets in the case file and all were documented in the file to indicate that more than one detective was present at the buy.

We were able to trace all informant payments on the Buy Fund log back to the Confidential Informant file. All information on the log matched the receipts and Informant Payment Forms and all were signed. One confidential informant payment was not documented on an Informant Payment Form, however, the officer made his own form with the same information required on the department form.

Three of the five informant payments did not include a description other than informant payment on the Informant Payment Form. We also found that a supervisor did not sign two of the five Informant Payment Forms.



**APPENDIX A:**  
**Status of Management Actions in Response to 1995**  
**Recommendations**

No.	1995 RECOMMENDATIONS	ISSUE STATUS		COMMENTS
		CLOSED	OPEN	
1.	The SOD Commander <sup>5</sup> should:			
	a. Track all RICO checks that are delivered to the Police Department, along with the date received, and match them to documentation necessary to verify that they are appropriately deposited on a timely basis. Documentation of the verifications should be retained to evidence compliance with federal guidelines.	X		Tracking forms are currently used and retained to evidence the chain of custody of RICO revenue checks and/or cash.
	b. Periodically (e.g., quarterly, bi-annually) reconcile imprest bank statements to ensure that he obtains independent insight into account activity and balances.	X		Monthly reconciliations are currently performed for each of the two imprest checking accounts.
	c. Periodically (e.g., quarterly, bi-annually) perform unannounced documented Buy Fund cash counts in the presence of the person responsible for safeguarding the money, to ensure that he obtains independent insight into account activity and balances.		X	See current recommendation 6.
2.	The Police Budget Analyst should take steps to formally document her verification of the proper recording of RICO expenditures. The documentation should evidence whether or not any exceptions were noted and corrective actions taken, if needed.		X	See current recommendation 3a and 3b.
3.	The RICO Administrator should:			
	a. Contact the Department of Justice to determine action necessary to comply with the audit requirement in the federal guidelines.	X		Audit requirement has changed and no longer requires action by the RICO Administrator.

<sup>5</sup> Currently, this position is the ISB Commander.

No.	1995 RECOMMENDATIONS	ISSUE STATUS		COMMENTS
		CLOSED	OPEN	
4.	b. Obtain the most recent version of the federal guidelines to identify any new requirements. He should then take steps to achieve compliance with the guidelines.		X	See current recommendation 2e.
	c. Ensure that he receives and retains all DAG 71's originating from the Police Department or from task forces on which the Police Department has assigned personnel.	X		Evidence indicates that the DAG 71's are now retained.
	The SIS Commander should:			
	a. Formally document his reconciliations of imprest checking accounts by initialing and dating the related bank statements.	X		Evidence indicates that these reconciliations are documented with initials.
	b. Consistently document his review of unit expense vouchers to evidence his review and indicate his approval.		X	See current recommendation 5g.
	c. Require and verify that unit supervisors deposit cash immediately upon collection from unit members.		X	See current recommendation 5d.
	d. Consult with the Narcotics Unit supervisor and take steps to formally document Buy Fund procedures in the SIS Operations Orders manual. Documented procedures should address control techniques, the frequency with which they are to be performed, and document trails that are to be generated.	X		Current SIS Operations Orders address control techniques over the Buy Fund. However, current recommendation 6 addresses the need for consistent adherence to that portion of the Operations Orders.
	e. Acquire a Buy Fund safe on which the combination can be periodically changed and, upon acquisition, implement a policy of changing the safe combination on a regular basis (e.g., annually).	X		Current safe has a changeable combination and the SIS Commander has indicated he will ensure it is changed at least annually.

**APPENDIX B: MANAGEMENT RESPONSES**  
**City Manager's Response**

*DATE: September 24, 2001*

*TO: Cheryl Barcala, City Auditor*

*FROM: Jan Dolan, City Manager*

*SUBJECT: Response to RICO Audit*

*This is in response to the audit recommendations related to the review by your office of the RICO and Imprest accounts.*

*As noted in the audit recommendations, the federal guidelines "recommend" that RICO funds be used within a two-year period. The Police Department will attempt to expend funds within this guideline. Exceptions to the guideline would be in cases where funds are dedicated over a longer period of time for City Council approved projects.*

*The Police Department is implementing the recommendation to receive County Attorney or Attorney General concurrence with budget proposals prior to City Council action.*

*cc: Doug Bartosh, Police Chief*

## **APPENDIX B: MANAGEMENT RESPONSES**

### **Police Chief's Response**

September 25, 2001

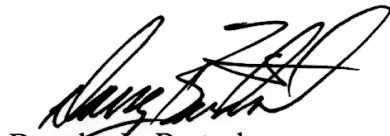
TO: Cheryl Barcala, City Auditor

FROM: Douglas L. Bartosh, Chief of Police and Director of Public Safety

SUBJECT: Response to RICO Audit

Please allow me to express our appreciation for the work performed by Senior Auditor Ramon Ramirez in completing the audit of the Police Department's RICO and Imprest accounts. Following our discussion regarding a few sections of the audit report and appropriate changes, we are now in agreement with the recommendations. You will find our timeline for implementing the recommendations in the document attached.

Thank you again for responding so rapidly to my request for this audit. This is a critical area for any police department and it is imperative that sound accounting and control processes are in place and followed.



Douglas L. Bartosh  
Chief of Police and Director of Public Safety



Attachment – Action Plan (total of 4 pages)

Cc: Jan Dolan, City Manager  
Dee Taylor Executive Assistant Chief  
Holly Christian, Budget Manager  
Chris Bingham, Captain, Investigative Services Bureau  
Sean Duggan, Lieutenant, Special Investigation Section

## APPENDIX B: MANAGEMENT RESPONSES

### Financial Services General Manager's Response

**To:** Ramon Ramirez, City of Scottsdale Internal Audit  
Cheryl Barcala, City of Scottsdale Internal Audit

**From:** Paula Novacek, Accounting Coordinator Financial Services   
James A. Jenkins, General Manager Financial Services and City Treasurer 

**Date:** September 24, 2001

**Re:** Responses to RICO Audit – Recommendations to Financial Services (page 5 of report)

---

#### **Financial Services' Responses to Internal Audits' RICO Audit Recommendation #4 – "The General Manager of Financial Services should take steps to ensure that:"**

- a) **The Accounting Coordinator makes needed adjusting entries to reimburse the City general fund for RICO operating expenditures initially paid with City monies.**

**Response:**

Procedures have been implemented to help ensure journal entries to reimburse the General Fund for RICO general fund operating expenditures are recorded on a quarterly basis.

- b) **The CIP Coordinator makes needed adjusting entries to reimburse the City for capital project expenditures that are supposed to be funded with RICO monies.**

**Response:**

Procedures have been implemented to help ensure journal entries to reimburse the City for RICO funded capital project expenditures are recorded on a quarterly basis.

- c) **City management and City Council are provided with reports that fully disclose all RICO monies available to the City.**

**Response:**

The amount of RICO monies available for City RICO purposes at June 30, 2001 is presented in the FY 2000/01 Comprehensive Annual Financial Report. The RICO monies are presented as an Intergovernmental Receivable in the Expendable Trust fund. For FY 2001/02, the amount of the RICO monies available for City RICO purposes is presented in the City's financial system monthly Trial Balance report for Special Revenue Fund 280. The Trial Balance report is available on the City's Intranet. The State and Federal RICO receivable balances will be annually adjusted to the fiscal year end Police Department Budget liaison's RICO reconciliation.